

FROM THE ARMY ACQUISITION EXECUTIVE

Depots, Arsenal & Ammunition Plants — Critical Defense Industrial Base Facilities

Concurrent with the more than 360,000 soldiers forward stationed or deployed to Operation Iraqi Freedom, Operation Enduring Freedom and other key missions throughout the world, the United States Army is undergoing the largest and most comprehensive transformation in its 228-year history. As the acquisition and purchasing arm for the Army, we are acquiring tremendous new capabilities so our warfighters can fight with greater lethality, survivability and sustainability, regardless of where the battlefield or mission takes them. It is clear that to provide the required sustainment and operational readiness for a transforming Army, we must transform the industrial base now to meet the Army's needs for the future.

The health of the defense industrial base is key to the Army's ability to provide innovative technology and technologically excellent systems and equipment at competitive prices. Production is primarily dependent on a privately-owned network of prime contractors and subcontractors. However, the Army's organic industrial base consists of facilities that produce ammunition, store munitions, manufacture components and maintain equipment. These are the Army's arsenals, ammunition plants and depots.

We know that the defense industrial base of the 21st century must consist of a complementary and synergistic mix of private sector and government capabilities. By leveraging the private sector's capabilities to the maximum extent practicable and economical, the Army can focus its resources on those manufacturing processes and products unique to its national security mission. The challenge is to determine what organic capabilities to retain and then how to make those Army-owned manufacturing facilities efficient so we can operate them without the need for subsidies.

We must also improve procurement from the private sector when we have limited sources. Our biggest dilemma in Army procurement is limited contractor competition and high costs. I hear complaints that despite large percentage increases in defense spending in every Army procurement appropriation, business for prime contractors dwindled as we bought fewer systems over the last few years and, instead, focused on modifications to current systems. Modifying *and* modernizing existing systems and equipment usually involves a sole source negotiation with the original equipment manufacturer, limiting our options. We are further limited because we cannot afford to miss out on important advancements or risk losing key industrial suppliers critical to sustainment of our fielded systems. As the Army transforms, program managers are faced with changing suppliers. The old base of suppliers has less work and is getting it without competition. This leads to higher cost.

This edition of *Army AL&T* magazine has several articles on the organic industrial base. There is much interest in this part of our infrastructure — including senior Army leaders, Office of the Secretary of Defense (OSD) officials, and Members of Congress. Although this base accounts for a small



percentage of the Army spending on procurement, the maintenance depots are responsible for more than half of all depot maintenance spending.

Several recent studies pointed out that the Army retains more capacity than the nation needs in peacetime or anticipates that it will need, even in an emergency. For example, we recently completed a study — led by RAND Corp. — that was requested by the

Secretary of the Army, to examine utilization, efficiencies and potential consolidation of the Army's government-owned, government-operated and government-owned, contractor-operated facilities. In addition to this latest study, we met with OSD and committed to making the organic facilities lean — to operate without the need for government subsidies and ensure a level playing field and competitive pricing with the private sector. We also vowed to consider consolidation and privatization. The Army Materiel Command is developing a written concept, and many important details are outlined in this issue's articles.

I am a firm believer in private enterprise. I believe that government should be in business only on an exceptional basis. Still, when we are in business, we must be guided by the same tough standards that we set for our contractors. We want the best value we can get and we want world-class technology at competitive prices.

The Army has attempted to address these organic industrial base issues for years. Ideas have been developed and plans have been written, and we're still working on it. Manufacturing is not a core competency for the Army. Army ownership of the manufacturing capability requires Army leaders, particularly logistics leaders, to attend to this peripheral function. This takes these leaders away from their primary responsibilities and it requires them to make decisions that fall outside their primary areas of expertise. Further, government ownership of plants sometimes leads to inefficient sourcing decisions.

In 1997, the Pacific Northwest National Laboratories issued a report on the ammunition industrial base. The report urged the Army to convert its government-owned assets to commercial activities, apply acquisition reform measures, focus government activities on accurately expressing the need for munitions, use the competitive marketplace and establish a program executive office (PEO) for this important program. The Army followed this advice and we now have PEO, Ammunition, but we are still hard at work on the other areas.

Say "industrial base" and you will get a different response based on whom you talk to. Suffice to say that the buck for the Army industrial base stops with me. From my perspective, the Army is fully committed to warfighter readiness and to providing the required materiel to support the warfighter at competitive prices. We need innovation and efficiency throughout the entire industrial base, and we are taking the necessary actions to ensure that happens quickly.

Claude M. Bolton Jr.